

April 2007



Vito J. Fossella
Member of Congress
(NY-13)

**Staff Report on the Tax Increases in the FY 2008
Budget Resolution (H Con. Res. 99)**

**2453 Rayburn House Office Building
Washington D.C., 20515
(202) 225-3371**

www.house.gov/fossella

Table of Contents:

Message from Congressman Fossella	2
Background	2
The Majority's Tax Hiking Budget	2
General National Information	2
General Information for New York State	3
Increasing Taxes on Millions of Low Income Americans	3
Effect on Residents of the 13 th Congressional District	3
Child Tax Credit	4
Alternative Minimum Tax	4
Capitol Gains Tax	5
Double Taxation of Dividends	5
Aggregate Effect on Staten Island and Brooklyn	5
Actual Effect on a Local Couple	5
Effect on Individuals	
NYC Police Officers	5
NYC Public School Teacher	5
NYC Fire Fighter	6
Conclusion	6
 Addendum on the FINAL version of the Budget	 7

The Majority's Budget = a Major Tax Increase for all New Yorkers

Message from Congressman Fossella:

The House passed H Con. Res. 99, The Concurrent Resolution on the Budget for 2008 on March 29. This legislation sets the federal budget for the 2008 Fiscal Year. Over the past nearly 4 decades New York State has ranked no lower than 3rd in the nation in overall tax burdens. In fact in more than half of those years New Yorkers bore the highest tax burden in the nation. Currently we rank 2nd in overall tax burden when State, Local and Federal taxes are considered together, trailing only residents of Connecticut¹. I directed my staff to analyze the budget resolution to determine its impact on an average taxpayer in Staten Island and Brooklyn. This report provides details on the budget proposal and highlights why it has been described as "The Largest Tax Increase in American History."

Background:

In 2001 and 2003, the President proposed, and the Congress approved, more than 30 different tax relief measures to provide significant savings for every American taxpayer, including changes to the AMT, increasing the child tax credit, reducing the marriage penalty, abolishing the death tax, and lowering marginal tax rates. As a result, the average American family is saving more than \$2,000 a year while our nation has experienced steady economic growth and produced 7.8 million² new jobs during this time. To ensure long-term fiscal responsibility, the legislation that authorized these tax relief measures also included sunset provisions, which would require Congress to reexamine and reauthorize the specific reductions or else they would expire by 2009. Every budget passed by the Republican-controlled Congress between 2001 and 2006 took into account the economic benefit of these tax cuts and assumed their re-authorization in its calculations.

The Majority's Tax Hiking Budget:

The Budget fails to extend many of the popular tax relief provisions that were enacted in 2001 and 2003. The result would be a massive tax increase on all taxpayers, adding nearly 5 million families back onto the tax rolls³, slowing economic growth for our nation and potentially increasing unemployment. The following report examines the impact of the budget on residents of the 13th Congressional District.

General National Information:

¹ The Tax Foundation, Tax Data, April 4, 2007, <http://www.taxfoundation.org/taxdata/show/335.html>

² The White House, <http://www.whitehouse.gov/infocus/economy/>

³ U.S Treasury, "Treasury Releases New Data On The Benefits Of The Jobs And Growth Tax Relief Reconciliation Act", Feb 19, 2004, <http://www.treas.gov/press/releases/js1201.htm>

- 115 Million taxpayers would see their taxes increase by nearly \$2,000 by 2011
- 83 Million Women would see their taxes rise, on average, by \$2,068
- 48 Million married couples will see increases of nearly \$3,000
- 42 Million families with children will owe, on average, an additional \$2,181 in federal taxes
- 17 Million seniors will owe an average of \$2,270 more each year
- 26 Million business owners will see their taxes rise by an average of \$3,960⁴

General Information for New York State:

The Majority's Budget plan will hit residents of New York State particularly hard, resulting in an average tax increase of \$3,657.71.⁵ In fact, only residents of Connecticut (\$4,311.23⁶) and New Jersey (\$3,779.71⁷) will see their average tax bills increase by larger amounts.

Increasing Taxes on Millions of Low-Income Americans:

The tax relief measures passed in 2001 and 2003 reduced marginal tax rates across-the-board, created a new 10% bracket for low-income Americans and removed nearly 5 million⁸ individuals from the tax rolls entirely. Unfortunately, the Majority's budget returns marginal tax rates to their pre-2001 levels – and also abolishes the 10% bracket, which has helped millions of Americans earning less than \$25,000 a year save hundreds of dollars annually. As a result, all Americans would pay more in federal taxes under this budget while those who can least afford to pay will see their tax bills jump by as much as 33%.⁹

Effect of the Budget Resolution on the average family in Staten Island and Brooklyn

The following analysis is based on U.S. Census Data for the median family income in Richmond County (\$71,359.00¹⁰) and an average of the median family income for the parts of Brooklyn in the 13th Congressional District (\$41,819.00¹¹) broken down by the specific tax relief measure the Majority has proposed eliminating.

⁴ House Committee on the Budget, Republican Staff Report, *"The House Democratic Budget, Real Tax Hikes, Real People"*

⁵ Americans For Tax Reform, *"How Much More in Taxes Will You Be Paying If the Proposed House of Representative Budget Passes?"*

⁶ Ibid

⁷ Ibid

⁸ U.S Treasury, "Treasury Releases New Data On The Benefits Of The Jobs And Growth Tax Relief Reconciliation Act", Feb 19, 2004, <http://www.treas.gov/press/releases/js1201.htm>

⁹ House Committee on the Budget, Republican Staff, *"The House Democratic Budget, Real Tax Hikes, Real People"*

¹⁰ US Census Factfinder data, <http://www.factfinder.census.gov>

¹¹ Ibid

Child Tax Credit¹²:

Staten Island: average loss of \$750.00 per family

Brooklyn: average loss of \$550.00 per family

The Child Tax Credit provides taxpayers a \$1,000 credit on their federal income taxes for each qualifying child under the age of 17. This represents a dollar-for-dollar reduction in a family's tax liability. The \$1,000 credit is set to expire on January 1st, 2011, and if not reauthorized, will decrease by 50% to \$500. Therefore, under the Majority's budget proposal, a family with two eligible children will pay \$1,000 more a year in federal taxes.

In 2005, more than 46,000 families in the 13th CD claimed this credit, resulting in a district-wide savings of over \$60 million a year. Reducing the credit to \$500 per child will increase taxes on Staten Island and Brooklyn families by more than \$30 million annually.

This tax increase will hit middle-income families with an adjusted gross income (AGI) between \$50,000 and \$75,000 the most, or more than 12,000 families in the CD, followed by families with an AGI between \$75,000 and \$100,000 (10,000 families). The hardest hit population financially will be those with an AGI of less than \$20,000 (nearly 1,500).

Alternative Minimum Tax:

Staten Island: Over 7000 new families would be subject to this tax

Brooklyn: Over 4000 new families would be subject to this tax¹³

The Alternative Minimum Tax (AMT) was originally enacted nearly 4 decades ago to close a loophole that allowed 155 individuals who earned over \$200,000 (over \$1,000,000 in today's dollars) to avoid paying any income taxes. Rather than eliminate some deductions or credits the Congress chose to add new layers to the tax code in order to ensure these individuals paid¹⁴. However, within six years, middle-class taxpayers will be hardest hit by the tax. An estimated 33 million taxpayers – roughly one in four households – will pay the AMT by 2010, including 37% of households with income between \$50,000 and \$75,000 and 73% of households with income between \$75,000 and \$100,000.

The problem with the AMT is that it is not indexed for inflation, and thus casts a wider net each year encompassing more middle-income taxpayers. Temporary provisions intended to mitigate the effects of the AMT expired at the end of 2006. However, the Majority's Budget resolution fails to provide a long-term fix for AMT. In Staten Island and Brooklyn, a total of 16,000 taxpayers paid the AMT in 2005 – and the number could jump to nearly 100,000 individuals in the next 5 years based on current projections.

¹² IRS TaxPayer Advocate Service, "Congressional District Statistics for 2005"

¹³ IRS TaxPayer Advocate Service, "Congressional District Statistics for 2005"

¹⁴ Tax Foundation, www.taxfoundation.org, "Backgrounder on the Individual Alternative Minimum Tax,"

Capital Gains Tax

Entire 13th District: Possible total tax hike of as much as \$19 million ¹⁵

Almost everything you own and use for personal or investment purposes is a capital asset. Examples include your home, home improvements, pension plans, and stocks or bonds held in your personal account. When you sell a capital asset, the difference between the amounts you sell it for and what you paid for it (known as the basis) is a capital gain or a capital loss. You have a capital gain if you sell the asset for more than your basis. You have a capital loss if you sell the asset for less than your basis.¹⁶ The budget allows recent reductions in the capital gains rate to expire, resulting in a tax increase on tens of millions of investors across the nation. The rate increase, on average from 15% to 20%, would hurt the 56,000 individuals on Staten Island and Brooklyn who paid \$383 million in taxes on capital gains in 2005. Under the proposal, a rate increase of 5 points would translate into a \$19 million tax hike on hard-working residents of the two boroughs.

Double Taxation of Dividends

Staten Island: Potential average increase of over \$1000 per affected individual

Brooklyn: Potential average increase of over \$900 per affected individual¹⁷

The Majority's budget ends the practice of taxing dividends at the personal capital gains rates, which would increase the double taxation of dividends by as much as 62%. In a worse case scenario, this would result in a \$100+ million tax increase on taxpayers in Staten Island and Brooklyn. Dividend taxation affects residents of all income brackets. For instance, more than 13,500 residents in the district with an AGI of less than \$20,000 paid over \$15 million in tax on dividends, or about \$1,100 per person in taxes. Under the new budget, these lower-income taxpayers would be forced to pay an additional \$720 in taxes every year. Taxpayers with an AGI of \$30,000 to \$50,000 would experience a tax increase of \$960 while those earning between \$50,000 to \$75,000 would pay \$1,090 more each year and those earning between \$75,000 and \$100,000 would pay an additional \$1,200 in taxes.

Aggregate Effect on Staten Island and Brooklyn:

Added together these examples alone will cost the local economy over **\$150,000,000** a number that is likely to be much higher when all tax increases are included.

Actual Effect on a Local Couple:

For this example we will use a hypothetical couple living in the 13th Congressional District where the husband is an NYPD officer and the wife is a public school teacher. The average taxable income when filing jointly for such a married couple is \$91,845. For

¹⁵ IRS TaxPayer Advocate Service, "Congressional District Statistics for 2005"

¹⁶ IRS Website

¹⁷ Joint Committee on Taxation

the 2006 tax year the tax liability for that couple is \$16,076. Should the Tax Cuts be allowed to expire and each tax bracket see an increase in their marginal tax rate back to the pre-tax cut levels this same couple will find themselves owing \$20,016. That's a tax increase of nearly **\$4000!**

Effects on Individuals: (the below examples assume, single individual filer status)

NYC Police Officer

On the same note the average New York City Police Officer living here will owe approximately \$7,400 this year in federal income taxes. Under the Majority's plan they would have that same officer owe over \$8,700, raising their tax burden by over **\$1300** each year.

NYC Public School Teacher

A New York City Public School Teacher would also feel the sting of an increased tax burden. This year that teacher would owe about \$8,600 in federal income taxes. Under the Majority's budget that same teacher would owe about \$10,168, a tax increase of around **\$1500**.

NYC Fire Fighter

Currently the average New York City Firefighter living in district will owe about \$12,300 in federal income taxes this year. If the Majority's budget were implemented now that same firefighter would owe about \$14,219. That's nearly **\$2000** taken out of that firefighter's pocket.

Conclusion:

As you can tell from the above examples the Majority's budget resolution, if fully enacted would have a serious detrimental effect on the pocketbooks and wallets of residents of Staten Island and Brooklyn. We face a major tax increase that few will be able to easily afford. As New Yorkers we already pay the second highest taxes in the nation. With the Majority's budget proposal we will remain second while seeing our taxes increase by an average of \$3,657.71. What's worse, that number is a state-wide average. New York City residents are likely to see an even larger hit to our wallets if these tax hikes are allowed to occur. The tax burdens born by Staten Islanders and Brooklynites are already high enough; we certainly don't need to see them any higher.

May 2007

The New Majority Budget -The 2nd Largest Tax Increase in American History

False Promises & Bad Policy

The House Majority budget Resolution amounted to a \$400 billion tax increase on all Americans. The Majority leadership hails its new budget as being less onerous on taxpayers because it raises taxes by only \$217 billion. In either case, the budgets tax too much, spend too much and force American workers to send more of their hard-earned money to Washington.

False Promises:

The Budget Resolution claims to extend the Child Tax Credit, Marriage Penalty Relief, and the 10% tax bracket for middle- and low-income taxpayers. However, those extensions are not guaranteed. Indeed, it is quite likely that they will never happen.

The problem centers on the budget's requirement that the federal government must be running a surplus to extend these important tax reductions. Unfortunately, the prolific spending in this budget plan leaves little hope that a surplus will be achieved.

The Majority budget also claims to provide relief from the Alternative Minimum Tax for millions of Americans. However, if you read the fine print, you'll learn that AMT relief is provided for only one year -- 2008. After that, the AMT returns to its normal levels and millions of middle-income Americans will be forced to pay thousands of dollars more in taxes.

Bad Policy:

After increasing federal spending by \$6 billion earlier this year, the new Majority budget authorizes another increase in government spending of \$22 billion above 2007 levels. The Majority used gimmicks to avoid reducing spending by an equal amount in other areas so the budget would be balanced - breaking one of their key promises.

Bottom Line:

The Majority leadership is attempting to use legislative tricks and smoke and mirrors to mask a massive tax increase on the American people. I did not support the original House version of this Budget and do not support this redrafted version either. I believe we should balance our budget with fiscally-responsible policies - not force hard-working Americans to send more of their money to Washington. I believe the American people can spend their money more wisely than bureaucrats in Washington.